

Internal Audit

**Fiscal Year 2015
Internal Audit Annual Report**

#15-303

October 2015



Department of Information Resources

Internal Audit Mission Statement

To collaborate with DIR leadership to fulfill the agency's core mission by providing independent and objective audit services designed to add value and improve the effectiveness of risk management, control, and governance processes.

DIR Internal Audit Staff

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Background

The Texas Internal Auditing Act (Texas Government Code 2102)¹ requires certain state agencies like the Department of Information Resources (DIR) to submit an Internal Audit Report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives. The annual report must be approved by the DIR Board and published in the agency website. The SAO is charged with prescribing the form and content of the annual report.

In compliance with this mandate, the SAO sets forth guidelines to assist state agencies in preparing the Internal Audit Annual Report. The guidelines represent the SAO's minimum requirements and do not preclude DIR from including additional information in its annual report.

Objective

The purpose of the Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the Internal Audit function and to assist oversight agencies in their planning and coordination efforts.

Acknowledgement

The DIR Fiscal Year 2015 Internal Audit Annual Report has been prepared in accordance with the guidelines prescribed by the SAO and published in the DIR website.

¹ Texas Government Code §2102: Internal Auditing

Detailed Results

I. Compliance with Texas Government Code, Section 2102.015

Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the DIR Internet Web site²

The Fiscal Year 2016 Internal Audit Plan and the Fiscal Year 2015 Internal Audit Annual Report will be posted on the Internal Audit Internet webpage of the Department of Information Resources (DIR) Internet website along with the other DIR-related audit publications within 30 days of DIR Board approval.

The DIR Internal Audit Internet webpage located at <http://dir.texas.gov/View-About-DIR/Pages/Content.aspx?id=44> contains the following documents approved by the DIR Board:

- Internal Audit Plans (by report release date)
- Internal Audit Reports (by report release date)

In addition, the webpage contains other DIR-Related Audit Publications by third-parties.

A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised in the Internal Audit Annual Plan and Internal Audit Annual Report, and a summary of actions taken by DIR to address concerns, if any, are included in the Fiscal Year 2015 Internal Audit Annual Report.

The information contained in the DIR's Internal Audit Annual Plan and Internal Audit Annual Report is not excepted from public disclosure.

II. Internal Audit Plan for Fiscal Year 2015

DIR Internal Audit prepared and reported its Fiscal Year 2015 Internal Audit Annual Plan in accordance with the requirements of the Texas Internal Auditing Act (Texas Government Code 2102) and all audit projects included in the annual plan were conducted in accordance with the required auditing standards and established Internal Audit process. The annual plan was approved by the DIR Board in October 2014.

² House Bill 16 (83rd Legislature, Regular Session) amended the Texas Internal Auditing Act (Texas Government Code 2102) to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entity's Internet web site within 30 days after the audit plan and annual report are approved by the entity's governing board or chief executive .

Internal Audit Process



PROJECT #	AUDIT PROJECTS	STATUS	REPORT DATE
15-100	Internal Audits		
14-101	Cooperative Vendors Audit	Complete	August 2015
15-102	Performance Measures	Complete	September 2015
15-103	Enterprise Contract Management	In-Progress	-
15-200	Board and Management Projects		
-	Reserved for Board and Management Projects	None	-
15-300	Required Projects		
-	Continuing Professional Education	Complete	-
15-303	Internal Audit Annual Report for Fiscal Year 2015	Complete	October 2015
15-302	Internal Audit Risk Assessment/ Annual Plan for Fiscal Year 2016	Complete	October 2015
15-304	Internal Audit Annual Assessment	Complete	-
15-301.1 15-301.2	<ul style="list-style-type: none"> • Follow-up Audit on the SAO Report 14-007 • Follow-up Audit on the SAO Report 12-004 	Complete	<ul style="list-style-type: none"> • June 2015 • June 2015
15-400	Other Projects		
-	External Audit Coordination	Complete	-
-	Workgroups/ Governance Boards	Complete	-
-	Implementation of TeamMate Audit Management Software	Complete	-

The Internal Audit Annual Plan for Fiscal Year 2015 was subsequently amended in August 2015 to reduce the planned audit projects due to limited resources and staff turnover in the Internal

Audit Division. As a result, the performance audit of the Data Center Services (DCS) Program was deferred and 750 hours were re-allocated to other audit projects. The residual risk was assessed during the Fiscal Year 2016 Internal Audit Risk Assessment project. The amended plan was approved by the DIR Board in August 2015.

Carryover to Fiscal Year 2016 Internal Audit Annual Plan

PROJECT #	AUDIT PROJECTS	STATUS	REPORT DATE
15-100	Internal Audits		
15-103	Enterprise Contract Management	In-Progress	-

Summary of Completed Projects

14-101: Technology Sourcing Office – Cooperative Vendors Audit

The vendors' sales reports are complete and submitted timely by the DIR vendors, and administrative fees are accurately assessed. DIR, in recognition of the importance of its Cooperative Contracts Program and the satisfactory performance of its vendors, improved its contract management procedures and strengthened its controls over the completeness and accuracy of the contract sales and fee data; and transactions are reconciled, well documented, and authorized. Controls over the Contract Management System provide reasonable assurance that the likelihood of unreliable contract data in the Salesforce System is minimal, and the use of required contract data is unlikely to lead to incorrect information. However, DIR controls over the management and oversight of its cooperative vendors can be improved:

- DIR vendors need additional guidance to properly complete and submit their sales reports; vendors do not always report their monthly sales timely or report accurate and complete sales data.
- DIR vendors do not always remit timely and accurate administrative fees or remit their administrative fees timely.

Recommendations to strengthen existing controls and to improve accountability were provided to DIR Technology Sourcing Office (TSO) management. TSO management concurred with the results of the audit and provided responses to implement the recommendations.

15-102: DIR Agency-Wide – Performance Measures

Controls are in place to ensure timely submission of the key performance measures results to the Legislative Budget Board (LBB) and DIR management works diligently to ensure that information is timely, accurate, and complete. However, some of the current processes for

collecting, calculating, and reporting certain performance measures have not mitigated inherent risks associated with the activities, are not efficient, and in some instances have led to the agency's inability to recalculate the performance measures scores provided to the LBB through the ABEST System with the supporting documentation that is currently available. No formal review of the data entered into the ABEST System has led to incorrect data being reported and not detected. Additionally, some of the performance measures should be considered for modification due to their definitions and methodologies do not represent the processes being performed.

Recommendations to strengthen existing controls and improve the performance measures data collection, calculation, review, and reporting processes were provided to DIR management. DIR management concurred with the results of the audit and provided responses to implement the recommendations.

15-301.1: Technology Sourcing Office – Cooperative Contracts Program – Follow-up Audit on the SAO Report 14-007

DIR improved its operating controls over the contract procurement processes, provisions and execution of cooperative contracts, vendors' compliance, volume discounts, training and certification requirements of the DIR contract staff, and the strategy to identify customers' information technology needs. Additional controls were implemented over the vendor sales reports, remittance of administrative fees, and customer discounts. Furthermore, DIR strengthened its operating controls over the processes and documentation of cost savings provided through the DIR cooperative contracts, and the review and update of contract data. DIR management agreed with the results presented in this report.

The following is a summary of the results on the implementation status of the 19 recommendations validated by Internal Audit.

Fully Implemented	Substantially Implemented	Incomplete/ Ongoing	Not Implemented	Total
13	4	2	0	19

The Technology Sourcing Office (TSO) management concurred with the results of the follow-up audit and will continue efforts to implement the outstanding recommendations.

15-301.2: Technology Sourcing Office – Cooperative Contracts Program – Follow-up Audit on the SAO Report 12-004

DIR improved its operating controls over the management of program fees, execution of contract provisions for non-compliance with reporting requirements, negotiating customer discounts, and the development and documentation of sales projections and budget. Additional

controls were implemented over the accounting of the program, accounting reconciliations, and reporting of financial information. DIR also coordinated with the LBB to clearly identify General Appropriations Act (GAA) fund requirements, and implemented a new accounting system, the Centralized Accounting Payroll and Personnel System (CAPPS). Furthermore, DIR strengthened its operating controls over the management of user access to the Contract Management System and the CAPPS System.

The following is a summary of the results on the implementation status of the 30 recommendations validated by Internal Audit.

Fully Implemented	Substantially Implemented	Incomplete/Ongoing	Not Implemented	Total
19	8	3	0	30

The TSO management concurred with the results of the follow-up audit and will continue efforts to implement the outstanding recommendations.

III. Consulting Services and Non-Audit Services Completed

Consulting Services³ Completed

The DIR Internal Audit Division did not perform consulting services in Fiscal Year 2015.

Non-Audit Services⁴ Completed

TITLE	OBJECTIVE	RESULTS	REPORT # DATE
External Audit Coordination			
DIR Independent Accountants' Report on Applying Agreed-Upon Procedures Texas.Gov Financial Report	Conduct an audit of the finances associated with the management and operation of the Texas.Gov (TexasOnline) portal for 16 months	<ul style="list-style-type: none"> Revenue – transactions tested agreed without exception Operation Costs – transactions tested agreed 	380263 July 2015

³ Consulting Services – defined by *The Institute of Internal Auditors* (The IIA) as advisory in nature, and generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: 1) the person or group offering the advice — the Internal Auditor, and 2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the Internal Auditor should maintain objectivity and not assume management responsibility.

⁴ Non-Audit Services – described by *The General Accountability Office* (GAO) as services that support the entity's operations such as: 1) certain accounting and financial services, 2) assistance services, 3) separate evaluations, 4) certain Information Technology and valuation services, and 4) participation in committees as non-voting members.

Fiscal Year 2015 Internal Audit Annual Report

TITLE	OBJECTIVE	RESULTS	REPORT # DATE
	ended December 31, 2014 pursuant to Texas Government Code Chapter 2054 ⁵ .	without exception or variances were immaterial <ul style="list-style-type: none"> • Revenue Cut-Off – items tested agreed without exception • Expense Cut-Off – items tested agreed without exception • Management and Oversight – controls tested agreed without exception 	
DIR Independent Accountants' Report on Applying Agreed-Upon Procedures Master Work Order Financial Report	Conduct an audit of the finances associated with the management and operation of the Master Work Order for the year ended August 31, 2014 and for the four months ended December 31, 2014 pursuant to Texas Government Code Chapter 2054.	<ul style="list-style-type: none"> • Revenue – transactions tested agreed without exception or variances were immaterial • Operation Costs – transactions tested agreed without exception • Accounts Payable and Accrued Liabilities – no exceptions noted • Expense Cut-Off – items tested agreed without exception • Management and Oversight – controls tested agreed without exception 	380285 July 2015 389311 July 2015
2015 State of Texas A-133 Audit (aka Single Audit)	Determine the State of Texas compliance with the compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the State's major federal programs.	-	In Progress Est. Completion October 2015
State Auditor's Office (SAO) Liaison	Serve as the liaison and assist the SAO with audits and investigations performed to fulfil their oversight and review responsibilities.	-	-

⁵ Texas Government Code Chapter 2054.2721 – states not later than August 1 of each year, any private vendor chosen to implement or manage the project shall have an audit of the vendor's finances associated with the management and operation of the project performed by an independent certified public accountant selected by the state.

TITLE	OBJECTIVE	RESULTS	REPORT # DATE
Workgroups/ Governance Boards			
Data Center Services (DCS) Program Cost-Savings Methodology	Assist DIR in developing an agreed upon methodology for measuring costs for the information resources technology consolidation initiative pursuant to Texas Government Code 2054.062 ⁶	The financial performance analysis of the base year resulted in a favorable variance in excess of \$2.9 million as compared against Fiscal Year 2014 Appropriations. The report provided an analysis and insight of: <ul style="list-style-type: none"> • Baseline Assessment of Total DCS Program Spend • Unit Rate Impact Analysis • Transition and Transformation Investments • DCS Consolidation Progress 	February 2015
Participation on DIR Workgroups/ Governance Boards	Provide management assistance, counsel, or advice to improve the effectiveness of risk management, controls, and governance processes.	-	-

IV. External Quality Assurance Review (Peer Review)

Overall opinion of the DIR's most recent external quality assurance review. The review was performed by an independent qualified reviewer and the report was issued October 2013.

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Information Resources Internal Audit Department receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

⁶ Texas Government Code Chapter 2054.062 – requires DIR to measure and report on financial performance and progress of the data center consolidation effort.

The next external assessment is due in Fiscal Year 2016.

V. Internal Audit Plan for Fiscal Year 2016

DIR Internal Audit embraces an integrated audit approach to develop its annual risk assessment and audit plan that includes, but is not limited to, the operational, financial, Information Technology (IT), contracting, governance, and regulatory compliance aspects of the agency.

The following Fiscal Year 2016 Internal Audit Annual Plan was approved by the DIR Board in October 2015.

PROJECT #	AUDIT PROJECT	BUDGETED HOURS
16-100	Assurance Audits – 1st Tier	
15-103	Enterprise Contract Management *	800
	DCS Vendor Management and Performance *	800
	DIR Governance Assessment	600
	DIR Ethics Evaluation	500
	Assurance Audits – 2nd Tier	
	DCS Security Compliance	
	CFO Revenue Assurance and Forecasting	
16-200	Consulting and Non-Audit Services	
	Workgroups/ Governance Boards	100
	External Audit Coordination	100
	Reserved for DIR Board/ Executive Leadership Projects	250
16-300	Required Projects	
	Continuing Professional Education	180
	Follow-up on Audit Recommendations	500
	Fiscal Year 2017 Internal Audit Risk Assessment/ Audit Plan	260
	Fiscal Year 2016 Internal Audit Annual Report	100
	Fiscal Year 2016 Internal Audit Annual Assessment	100
	Internal Audit External Assessment (Peer Review)	100

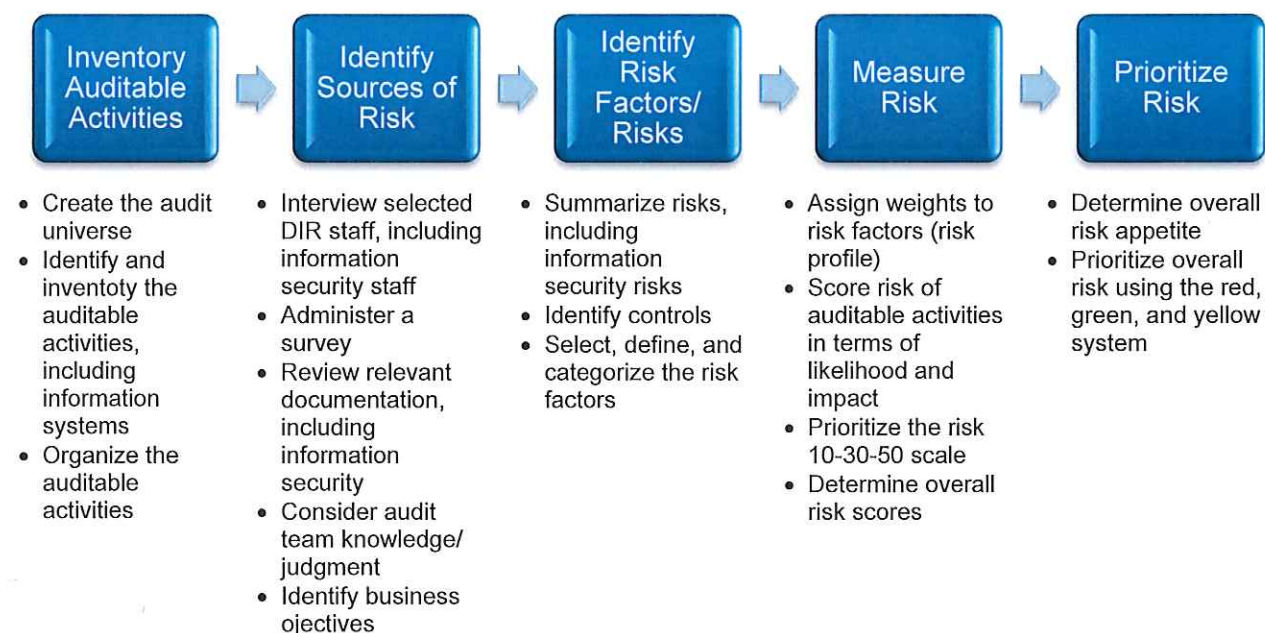
- * Audit projects addressing the contract management and other requirements of Senate Bill 20 of the Texas 84th Legislature

All auditable activities identified with high risk during the risk assessment process were included as 1st tier or 2nd tier internal audit projects in the Fiscal Year 2016 Internal Audit Annual Plan. However, due to limited resources audit hours were not allocated to the 2nd tier projects; DIR Internal Audit will conduct 2nd tier projects only if available audit hours remain after completing the 1st tier projects.

None of the audit projects in the annual plan relate to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act (GAA). Any changes in risk that require modification of the audit plan during Fiscal Year 2016 will be executed, as needed, with the DIR Board approval. A copy of the amended plan will be shared with the corresponding oversight agencies, as required.

Risk Assessment Process

The DIR Internal Audit risk assessment consists of a hybrid methodology that uses specific risks, common risk factors, and risk categories aligned with the agency's auditable activities. The risk of the individual auditable activities is measured in terms of its likelihood and impact, and prioritized using a scale of 10, 30, and 50, where 10 represents the lowest risk and 50 represents the highest risk.



Risk factors and risk categories identified for Fiscal Year 2016 included:

Strategic Risks	Operational Risks	Compliance Risks
<ul style="list-style-type: none"> • Poor outcome to customers • Failure to achieve goals/ objectives • Negative publicity/ loss of credibility 	<ul style="list-style-type: none"> • Complexity of operations • Dependence on strategic partners • Contractor inadequacy 	<ul style="list-style-type: none"> • Non-compliance with state law

In addition, review of the audit history for the specific auditable activities was conducted over the previous two fiscal years and current fiscal year to assist in determining the overall risk. Consideration of information security risks was integrated into the operational risk assessment process and addressed in terms of the confidentiality, integrity, and availability of the data created, processed, and stored in the agency's information systems.

The DIR risk-based audit plan was aligned with DIR's goals and risk appetite, and included input from the Executive Leadership Team (ELT) and the DIR Board. The ELT and the DIR Board understand their responsibilities regarding risk and the importance of these risks exposures to the agency's governance, operations, and information technology.

VI. External Audit Services Procured in Fiscal Year 2015

The following external audit services were procured and conducted in Fiscal Year 2015:

- DIR Independent Accountants' Report on Applying Agreed-Upon Procedures – Texas.Gov Financial Report
- DIR Independent Accountants' Report on Applying Agreed-Upon Procedures – Master Work Order Financial Report
- DIR Audit on its Performance Measures

VII. Reporting Suspected Fraud and Abuse

Actions taken by DIR to comply with the fraud requirements of:

Section 7.09, page IX-37, the General Appropriations Act (GAA) (84th Texas Legislature, Conference Committee Report)⁷

- DIR included at the footer of its home webpage a link to The State Auditor's Office (SAO) Hotline webpage for reporting fraud, waste, or abuse. The "SAO Fraud Reporting" link is located at <http://dir.texas.gov/>.
- Chapter 4 of DIR's Ethics Policy includes statements describing and prohibiting fraud, waste, theft, and abuse; the responsibility and means to report suspected fraud, waste, theft, and abuse to the SAO; and prohibited acts. This policy applies to all DIR employees and any consultant, vendor, contractor, or other government entity or person in dealings with the agency or the State of Texas.
- DIR provides annual training to all employees on fraud awareness.
- DIR appointed an Ethics Officer who receives allegations of suspected fraud, waste, theft, and abuse and makes preliminary determinations on whether the allegations should be investigated.

Texas Government Code (TGC), Section 321.022, Coordination of Investigations⁸:

- The DIR Executive Director or designee (Director of Internal Audit) reports fraudulent or unlawful conduct to the SAO, as required, if reasonable cause is believed that fraudulent or unlawful conduct occurred in relation to DIR's operations.

⁷ GAA Section 7.09. Fraud Reporting – a state agency with appropriated funds by this Act, shall use appropriated funds to assist with the detection and reporting of fraud involving state funds by 1) providing information on the home page of the entity's website on how to report suspected fraud, waste, and abuse involving state resources directly to the SAO and shall include, at a minimum, the SAO fraud hotline information and a link to the SAO for fraud reporting; and by 2) including in the agency or institution's policies information on how to report suspected fraud involving state funds to the SAO.

⁸ TGC, Section 321.022. Coordination of Investigations – states if the administrative head of a department or entity that is subject to audit by the SAO has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the SAO.

Appendix A: Report Distribution

Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Interim Executive Director

External Report Distribution

Texas Office of the Governor

Texas Legislative Budget Board

Texas State Auditor's Office

Texas Sunset Advisory

DEPARTMENT OF INFORMATION RESOURCES

Fiscal Year 2015 Internal Audit Annual Report


APPROVAL:



Lissette Nadal-Hogan
DIR Internal Audit Director

10/8/15

Date



Richard S. Moore
DIR Finance and Audit Subcommittee Chair

10/29/15

Date
